

ECONOMICS IN ACTION MAY 1953

The top brass in the Kremlin is now engaged in a game of a-tisket-a-tasket--and no one knows behind whom the basket will next be dropped. One thing is certain: Russia is preoccupied with internal affairs, and the recent general reduction in retail prices is a bid to the Russian people to stand firm. Bread, butter, meat and flour were slashed 10%; fabrics by 15%; electrical equipment by as much as 25%...These price slashes were decreed by the government and bear no relationship to the universal workings of the law of supply and demand. For example, the big cut in the price of electrical equipment is meaningless because such equipment is in very short supply, and most Russians can't buy it at any price... The price cut in bread has more meaning. The average Russian used to work 4½ hours for one loaf of bread. Now he will have to work just 4 hours....

The shape of Russia's recent peace offensive indicates that the Soviets wish to build up their internal strength rather than exert military might externally...Whatever the true reasons for this shift may be, it does not, nevertheless, increase the chances for world peace. If anything, the threat of war is closer than ever before. (See A Personal Note from the Editor in this issue)....

A prolonged thaw in the cold war will unquestionably require readjustments in the economy of the free world...The sharp drop in stock prices that occurred the morning after Red China agreed to renew the truce talks reflected a growing uncertainty about the future. But it should be remembered that a similar stock market slump occurred at the beginning of the Korean war...Even before Malenkov came to power.

ECONOMICS IN ACTION

most economists had decided that the boom was leveling off and that a mild deflation might be on its way... Construction, personal income and retail sales all continue above last year's levels, but major price breaks may be on the way... Although 8.5 million TV sets will roll off the assembly lines in '53, only 6.5 million people are expected to buy them. Similar surpluses could occur in autos, refrigerators and washing machines--probably bringing price cuts in their wake....

If the taxpayer's money can be diverted from war to peace, President Eisenhower pointed out recently, the money could be used to combat world want and to create higher living standards for everyone... Translating war costs into peace items, the President said: "The cost of a heavy bomber is this: a modern brick school in more than 30 cities, two electric power plants, two fully equipped hospitals, some 50 miles of concrete highway... We pay for a single fighter plane with a half-million bushels of wheat. We pay for a single destroyer with new homes that could have housed more than 8000 people...."

The two biggest worries that the economists have are the increase of consumer credit and the accumulation of business inventories... More and more people have taken to on-the-cuff buying and are going into debt for houses, automobiles and appliances. Within recent months, a surprising proportion of these people have fallen behind on their installment payments... It's also possible that businessmen, who have accumulated large stocks of goods, may turn panicky and dump them on the market....

(Continued on page 63)

challenge

M A G A Z I N E

Vol. I No. 8

May 1953

ECONOMICS IN ACTION

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a personal note

THE RUSSIANS CONTINUE TO HOLD the initiative in directing the course of world events. They have chosen the time and the place to begin an easing of the tension between East and West. But unless the Russians have already decided to retreat from Asia and Eastern Europe, there is no reason to believe that the bosses of the Kremlin will consider any terms designed to create a long-term settlement. They are interested in short-term settlements and the easing of tensions on local, not global, levels.

The fact that our government has stipulated the broad objectives of whatever agreements may be reached does not deter the Russians from playing an obstructive game. They will create new issues, inflict subtle annoyances, generate conflicting emotions, dash fond hopes and finally distract world attention from the program of *musts* so wisely enunciated by our President. And yet, we must play along with them for the sake of preserving the peace, so long as they do not tread upon the substance of our survival.

For the moment, the Russian peace offensive has eased the tensions and lessened the prospect of war in men's minds. The world anxiously waits to see what positive agreements can be induced out of this suggestion of a rapprochement. But an examination of the reasons *why* the Russians now sound cooperative does not indicate that a peaceful world will really come out of the projected negotiations. In fact, the chances of war are greater now than ever before. What is happening to the Russian leadership does not bode well.

THE LONELIEST MEN IN THE WORLD today work in the Kremlin. They have each other for company, but there is very little personal satisfaction in that. These men do not trust each other, for since Stalin's death, the administrative balance of individual power has been destroyed. Until a workable balance can be restored, there will be a period of ups and downs in the political fortunes of the present rulers. The purges have already begun and no one can tell who will be on top of the heap when the smoke of plot and counter-plot has cleared. It is a dangerous game that Malenkov and Co. play, and these men can hardly be blamed if they find no joy in life except the job of getting on with the business at hand. To coin a phrase, the suspense must be killing.

The bosses of the Kremlin are the victims of their own system. They have no legal status as rulers because they decreed themselves into power. If they have differences among themselves, they cannot appeal to the people to arbitrate because they would then surrender their dictatorship. Meanwhile, they cannot agree who among them will assume Stalin's role as the Great Arbitrator.

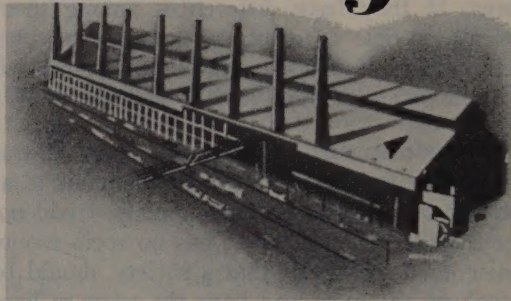
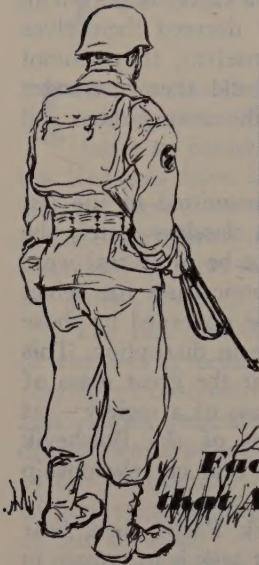
THIS FLIGHT OF THE RULING HIERARCHY is transmitted to the bureaucracy of the Bolshevik Party. In the name of a classless society the Party acts as a ruling caste. The anomaly would not be so critical were it not for the fact that this caste has no socio-economic basis for being. Communist ideology denies that a society should be governed by those who contribute the most and have the most to lose in disruption. This denial is unqualified, even though it is possible that the great mass of people might participate in the socio-economic process of a society — as in the United States. Therefore, the prerogatives of the Bolshevik Party are built exclusively upon political power and bear no relationship to the workings of the other social forces.

Both the Russian hierarchy and the Bolshevik Party, then, bear only one responsibility — to themselves. Their chief task is to remain in power and to survive. And survival, because of the lack of precedent and law, involves an exercise of the most elemental passions. Undoubtedly, the Russians are presently preoccupied with internal affairs. This explains the recent peace offensive. The reduction in consumer prices decreed by the government is a sop to the Russian people to remain still while the reshuffling progresses at the Kremlin.

However, the desire to strengthen the country internally implies that the Russian leadership must create better economic conditions. This desire will undoubtedly be thwarted because Russian productive capacity cannot sustain a "guns and butter" program. The specter of continued American progress in these directions during the period of uneasy peace can neither be ignored nor explained. It will be an additional goad to the Russian leadership. This can put them in an intolerable position with their own military clique — and perhaps eventually with their people. Only a war designed to evoke patriotic unity can sustain the new government.

It is hoped that this will not happen, but the men of the Kremlin are taking bold measures to keep themselves in power. Their current peace offensive gives the world little respite from its preparations for the worst. — HB

The Big Lie



***Facts disprove the communist line
that American profits depend on war***

By E. G. NEAL

THE COMMUNISTS have effectively seized the peace offensive by their claims that American profits depend on war, and therefore it must reasonably follow that American businessmen must want, and intend to bring about, that war which will guarantee them continued wealth.

Unfortunately, the Soviet Union is not alone in the erroneous impression that our profits are inextricably linked to our war effort. Many in Europe are laboring under the same delusion, and even among our best friends abroad there is the feeling that America must maintain a great defense effort in order to avert a catastrophic depression.

What few people realize, because it has not been pointed out, is the fact that our profits are actually cut, not only by war itself, but by war preparations.

Let's take a look at the figures. In order to present a completely valid picture, we compare profits for the first six months of 1950, before the Korean war, to the first six months of 1951, when the war and the armament program were well under way.

All 200 major manufacturing corporations whose profits are regularly compiled by the Federal Reserve Board show a distinct decline during this period. Among specific corporations, it is well known that General Motors has a

large volume of war contracts. Yet GM profits in 1951 were only 61 percent of 1950; in 1952, they were only 67 percent of 1950.

Among other so-called "war industries" are United States Steel and the Aluminum Company of America. Significantly, U.S. Steel's profits show a drop of \$6,788,360 for the first six months of 1951. And for the same period, Alcoa's profits were reduced by about \$7 million. Corporate profits generally continued to decrease in 1952.

It is true that some industries, such as aviation—which depend largely upon war orders—may flourish. However, the total effect of this war-induced prosperity is nullified by the fact that a war economy ruins the small businessman, whose number is legion.

His prosperity and his very existence depend on the manufacture and sales of the many items used in a peacetime economy; and these items are either drastically curtailed or totally abolished in wartime because of shortages.

Russian propaganda is almost invariably founded on the complete distortion of a basic half-truth. The ensuing result of this perversion is a total lie. Just such a lie is the world's illusion, propounded by Russia, that our prosperity is contingent upon war. The half-truth upon which this pernicious propaganda has been built bears examination.

It is an undeniable fact that for a year or so during a period of peak war effort, the American people have cash in their pockets and prosperity on their minds. The whole truth, however, is that though the cash is real, the prosperity is not—for the money, borrowed from the future, must be paid back in taxes. Upon consideration, it becomes clear that if the government takes in taxes an amount equal to its expenditures for armament, then those expenditures will have no effect on increasing prosperity.

In any large war effort, the government borrows money and pays it out to its citizens in a flurry of economic activity. It is during this period that the government is spending more than it is raising in taxes, and a false sense of prosperity is engendered in the people. Too often, we fail to realize that the money must be repaid with interest.

Such a period of spurious prosperity was the latter half of 1950, when profits were enormously inflated by the false war boom which followed immediately after the

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start of the Korean conflict—but *before increased taxes and allocations of materials could be put into effect*. This sort of deficit financing results in inflated prices. Thus, as rising prices drastically reduce the citizen's buying power—as well as devaluating his life's accumulated savings—it would seem evident that the cash in an American's pocket is not necessarily indicative of the nation's prosperity.

The facts make it clear that this nation cannot possibly be as generally prosperous under war conditions as it can in peacetime.

A war economy brings on something which American business abhors—increased government regulation:

- *Profit limitations on armaments.* The government sets specific limitations on profits permitted on armament contracts. These allowed profits are far less than those realized from normal peacetime production, as witness General Motors.

- *The renegotiation of armament contracts.* The government provides that if by any chance large profits are made on any armament contract, the terms of the contract for several years to come are subject to renegotiation, then the set terms of contract are changed to low profit limits.

- *The excess profits tax.* This tax, imposed during the war, gen-

erally limits all profits to a maximum which is less than the highest profit reached during the three years previous to the war. Armament makers are limited by the profits limitations, along with renegotiation. The excess profits tax catches all businessmen, whether they make ladies' corsets or machine guns.

- *High income taxes.* Last, but far from least, there is the gigantic personal income tax. This illustrates clearly that stringent government regulations in a period of emergency play no favorites. All America is economically victimized by higher war-induced income tax.

WE ARE ALL FAMILIAR with the average American's financial plight brought about by a high rate of taxation. His situation, perhaps more than anything else, brings home the fact that the effects on the economy wrought by war and war preparation constitute a grave threat to the American way of life. Unless lasting peace is achieved, this way of life may well be doomed to extinction, for Americans are obliged to relinquish their prerogative to attain personal economic reward—and this once comprised the very essence of the capitalistic free enterprise system. Our young men are now forced to abandon the hope of realizing those rewards which the capitalistic system for-

merly offered as the result of hard work. The story of Horatio Alger is rapidly becoming the great American myth. Unless we have peace, the full benefits of our free enterprise system cannot accrue to the individual.

There's no doubt that high taxes are rough on the average American at home, and rough on large corporations, where the tax collector takes two dollars for every dollar he leaves the company. But far worse off are the thousands of Americans recalled to active duty.

Take the cases of men like Jerry Coleman and Ted Williams, professional baseball players. The financial sacrifices incurred by athletes like these — who served in World War II, and whose years of earning power are limited to ten — refute the assumption that prosperity and war go together.

Or take the case of young John Smith, whose counterpart quite possibly lives in your neighborhood. John is now in Korea; his wife and two children are at home.

Mary Smith soon finds that she and the children can't live on John's Army pay. She either returns to her family's home or gets a job. But whatever she does, she has to pinch pennies until they scream. As we watch her pause in front of the meat counter, for instance, we see her reluctantly pass up the good cuts of meat and settle, as usual to, for hamburger.

Thousands of American women, who daily contend with the strains on the household budget, must be wondering about the perversities of "unnatural prosperity."

THE FACTS BRING us to one inevitable conclusion: a true and lasting prosperity can be ours only if we actually add to the inherent wealth of the nation. The building of war planes, guns and ammunition, however necessary at present, in no way adds to this basic wealth.

For example, the recent easing of metal restrictions by the Eisenhower Administration was greeted with applause from all segments of industry, for it is recognized that profits from normal, civilian production are far healthier than seeming profits from the production of war materials.

It is obvious to us that by utilizing our own great resources and constructive know-how, not to fight wars, but to create things of permanent value to the nation, the real wealth of our country would be inestimably enhanced. Even the Russians must see that their standard of living would improve if they diverted their steel and manpower to peacetime construction rather than war effort!

If the world situation permitted, the American businessman would infinitely prefer to have private hands spend the billions

of dollars which now are spent by the government for war goods.

This money could be used for the purchase of automobiles, homes, clothes, vacations and all of the varied goods and services which measure the true standard of living in America. If government pump-priming were needed to offset a temporary lull in business, it could be more effectively accomplished by speeding up the building of roads, schools, parks and hospitals, than by building atom bombs and tanks.

The prosperity we could enjoy through this constructive activity would be a fundamental and permanent one. Our standard of living would indeed be "unparalleled" if we could divert the \$65 billion scheduled to be spent for armaments to civilian goods.

Through past experience, wars and protracted periods of defense preparations have had the following effects:

- Corporations show a marked decline in profits.
- The big businessman cannot exercise his American prerogative of making profits at a pace considered normal in peacetime.
- Many small businessmen are bankrupted.
- The average American assumes a tax load which tends to become permanent.
- The ever-mounting taxation and spiraling inflation create eco-

nomic hardships which ultimately lead to a lowering of our standard of living.

The American system of free enterprise is seriously jeopardized by governmental controls always imperative in a war-time economy.

DOES IT LOOK, then, as though the American businessman is spoiling for war? Hardly.

To counteract Russian claims, we must see that people everywhere have access to the truth: that we don't want war, because, in addition to all the other reasons for not wanting world conflict, it simply doesn't pay. Once everyone sees the fallacy of the idea that war and profits are synonymous, then and only then can positive headway be made by individuals to end war.

It is the responsibility of the American people in general to refute the communist lie. The larger share of this obligation must rest with the American businessman, who is best equipped to do the job. He must present to the people the true economic picture as he knows it to be. He must utilize his tremendous talents to explain his own stake in the struggle for peace.

Our economic stability, as well as our historical tradition, depends on the peace which alone can add to the intrinsic wealth of our nation. Only in peacetime can the country, its business and its people truly flourish. ■

*It's easier to get a camel through
the eye of a needle than to get
government out of business*

The RFC—Forever?

By SAMUEL SHULSKY

IT IS NOW NEARLY a year since the Republican Party found such "flagrant favoritism and influence in the RFC" as to warrant mentioning it in its party platform at Chicago.

Four months have passed since the party which promised to return this nation to free enterprise took over the reins of government. But today the United States Government is still in the commercial banking business.

Despite all the stench brought out in a year and a half of Senate Banking Committee investigations, The Reconstruction Finance Corporation is still in business. It is empowered for at least the next 14 months to continue lending millions of your money and mine to whomever it wishes and without so much as a "by your leave." Under a new label, as yet unannounced, it may well continue to
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lend public monies to any of our grandchildren's contemporaries who will be unable to make their own way under the laws of private capitalism, which we hope, will then still obtain.

For the Republican Administration, after much talk, has come forth with the surprising announcement, that as its sign of faith in private enterprise, it will allow the RFC to die in 1954 (a termination date already definitely fixed under a Fair Deal president in 1948), but with the surprising addendum that a new agency may be set up to continue making loans of less than a million dollars to small business—time limit, none.

All of which proves that it is easier to get a camel through the eye of a needle than to get government out of business. The inference is obvious: cleaned up or not, any agency for dispensing the people's money on an arbitrary basis is too handy a device for any party to give up willingly. And yet, if the investigation proved

anything, it is that the RFC has long since outlived its usefulness (in fact, in the hands of unscrupulous politicians can be downright dangerous) and that there is no place in our economic life today for a governmental agency to "play God" with our money.

It would serve no purpose to review here the long list of stupid, politically inspired or outright fraudulent loans which were revealed in the inquiry that ended August 20, 1951.

BUT NEITHER their exposure nor the promise of the new administration to do better solves the basic question posed by the continuation of any sort of RFC:

Why is the government perpetuating a relief agency, set up twenty years ago to stem nationwide panic, in order to lend money to business during a boom era when more than 63 million people are employed, when jobs are going begging, when commercial banks and securities bankers are able and ready to lend or underwrite flotations of up to \$200 million?

Why is the government assuming the role of a private banker, dispensing public monies to those whose businesses do not merit private loans under the standards of finance and credit which regulate the rest of the country?

To put it more specifically, why should our government lend \$20,-

000 of your money and mine (as it did in March) to a dairy in Alabama if neither the company's credit nor its management's record evidently merited a loan at the local bank? Or a \$50,000 loan to a food products company in Oregon, or \$25,000 to a printing firm in South Carolina, or \$20,000 to an awning company in Alabama?

The RFC act declares that the agency was set up to extend "financial assistance" when "the credit requested is not otherwise available on reasonable terms." Isn't it about time that someone asked, "Why isn't the credit requested available on reasonable terms?"

Those last three words — *on reasonable terms* — constitute the most glaring alibi in economic history. Just what would be reasonable terms for the Alabama dairy, or the Oregon food company — 5 percent, 6, 8? A six-months loan, two years, five years?

If the local banker, having known the firm for all of its lifetime, did not care to advance it money at 6 percent, does that mean the company has a right to come crying to the RFC and get our money for 5 percent? I've often wondered how the New Deal government, with its concern for the workingman, could have explained to him why an unsuccessful storekeeper was entitled to the

loan of public tax money at 5 percent (4 percent in New Deal days) while the working man who paid the taxes which made RFC possible was left to tide himself over sickness or unemployment at the small loan company at rates of up to 30 percent.

PLANS TO CURTAIL or end RFC are old stories. They began appearing as early as Feb. 2, 1933, when, on its first anniversary, RFC's lending powers were scheduled to expire.

But they didn't. All during the mid-Thirties, Washington dispatches appeared in the newspapers headed "Limits Asked on RFC Powers," "RFC's Future at Stake," "Reduction to Emergency Basis Seen for RFC," and "Permanent RFC is Frowned Upon."

Nearly eight years ago, the then new administrator, John W. Snyder, took over his office with a "proposed consolidation which may be a tentative step toward ultimate liquidation of the RFC." But Mr. Snyder erred in minimizing the political strategy of those to whose advantage it was to keep RFC alive. No longer needed as a spending agency for the wartime defense administration, the RFC suddenly emerged as patron of small business.

The program was a simple one. Every small businessman was to be considered a personal ward of

the government. And if he was, in addition, a *poor* businessman, then he was obviously just the man to be advanced public monies at rates which would make U.S. Steel envious.

Now it so happens that the RFC was then still operating on a "tell 'em (the public) nothing" basis. It lent our money and kept its own counsel. But seemingly, by accident, the loans list for March and April 1947 got out, and it revealed that RFC was taking its job of helping small business very seriously indeed, especially if the small businessman in question happened to vote in the then loyal and solidly Democratic South. In those two months alone, small town grocers, cobblers, dry cleaners, tailors, diaper services and used car lot operators in Alabama, Georgia, Arkansas and Florida were handed scores of loans ranging from \$75 to a few thousand dollars. Evidently the hometown bankers were "unreasonable." Or it could have been that these bankers were only conscientiously heeding the government's official warnings to bankers to go slow on loans to business in order to hold down inflation!

TWO YEARS AGO the fight to end RFC was vigorously renewed, this time with ex-President Herbert Hoover, in whose administration RFC was created, and Jesse Jones,

its first boss, both asking that it be abolished.

This has been followed from time to time — and without success — by bills for dissolution introduced principally by Virginia's Senator Harry Byrd.

Let no one suffer the delusion that continuance of RFC is only a Democratic Party, or New Deal-Fair Deal concern.

In the spring of 1948 — with its extinction set for June 30th — the agency went before a hostile, Republican-controlled Congress. It looked as though RFC's number was up this time. But much to the surprise of friends and foes alike, this agency, tarred with all the collective evils of the New Deal, came through with flying colors. The GOP, in control of Congress for the first time in 16 years, evidently could see no harm in the government's playing banker.

True, a few embarrassing questions were asked in committee hearings. But these, evidently, were just for the record. When the political clouds had cleared, the agency was as alive as ever. It had six more years of lending — to 1954 — and two years beyond that for liquidation.

Late in March, President Eisenhower and congressional leaders agreed, according to Speaker Martin, to end the RFC — *but* to set up a Small Business agency to make loans to little business con-

cerns. This would amount to a brave, forthright substitution of Tweedledum for Tweedledee.

This new small business loan setup, it was explained in its behalf — may be limited to loans of one million dollars.

If this sounds like a substantial retreat for the forces of government-in-business, be advised that in the six months through last March (1953) there weren't a dozen loans of a million or more even without this ceiling! And that the average loan in the first quarter of this year was less than \$130,000!

It's obvious that it will take more than a million-dollar limit to put the government out of the banking business.

Three years ago, when the RFC was deep in the Texmass oil mess, Jesse Jones pointed out that the RFC had gone far afield from its original purpose and should be closed up. He told Senate investigators:

"The RFC should not be regarded as a source of easy money, a place where improvident loans may be made for personal or political reasons; a bank of issue for the socialization of the nation's economy and a spigot where funds flow to those who are classed as acceptable risks because of political expediencies....

"I think the RFC should be given a decent burial — lock stock

and barrel. I say this because none of the conditions which prompted the creation of the RFC and the various amendments of its power exist today; government lending in competition with private business is not a proper function under our free enterprise system; there is ample credit for all legitimate and justifiable loans.

"As long as the RFC is in the lending business, it will get applications for loans. Some people prefer to borrow from the RFC

rather than from their local banks... With the RFC all set up for business, it is natural that those in charge of it would rather make loans than not, in order to justify their employment and the continuance of the agency, and some people wanting to borrow money would like to be in a position to say to their bankers 'if you don't let me have the money I will get it from the RFC.'... I wish to remind you that where the sugar is you will always find the flies." ■

Capsule Comments

PRO: Killing the RFC would "liquidate an earning organization. The taxpayer cannot help but come out with less." The RFC has paid \$1 billion into the Treasury in the last twenty years.

— *Harry A. McDonald, Administrator, RFC*

CON: "The Congress can make a good, quick start on cutting away unnecessary Federal agencies by pointing hard and straight at the RFC. Senatorial investigations have cast serious doubt on the necessity or desirability of such a Governmental agency in time when the obtaining of financial assistance for worthy enterprises has become far easier than it was when the agency was set up."

— *Rep. George H. Bender (R., Ohio)*

PRO: More than 90 percent of all RFC loans are for amounts under \$100,000. "Big private banks just aren't interested in that kind of business, although I certainly think they should be. A lot of banks just don't have the personnel to screen batches of small loan applications, and so they don't bother with them at all. We're equipped to look into these requests, and if we find them valid, we can so inform the banks and urge them to look into these requests."

— *Clarence A. Beutil, Deputy Administrator, RFC*

CON: "There's this much to be said for the RFC; it plays no favorites with Administrations. Some of the things the Republicans talked about under Mr. Truman, the RFC is still doing under Mr. Eisenhower. Last week, the agency authorized a \$200 loan at 5 percent to a Maine lobsterman so he could replace some of his gear lost in a storm around Penobscot Bay."

— *Editorial, "Wall Street Journal"*

The Revolt of the Old Men

Where there's a will, there's work—even
for the 'old' who are retired involuntarily

By ROBERT M. HYATT

THIS IS THE STORY of the deadly years in the average man's earning career, and how to defeat them profitably. It is the story of a vast untapped reservoir of manpower which, with little trouble or cost, can be utilized to help expand the economy of our nation many fold.

The workingman's deadly years are those which come after 65, when he is "too old to work," according to the majority of employers everywhere. When you've reached 65, you have arrived at a dead end. Your employer gives you the final paycheck—your passport to oblivion. There are no more jobs for you, regardless of how healthy and competent you

are. It's the petunia bed for you, and a pension, if you have one.

Now, assuming you still *want* to work and *can* work, what is the solution? There seems to be only one. Sidestep membership in the "lost legion," rebel against convention and do what a group of oldsters in Schenectady, N. Y. has done.

Maybe you've never heard of the Mohawk Development Service, where the job seeker is "too young" if he's under 65. Mohawk's fifty employees are all, except a few secretaries and clerks, at least 65, and some of them are in their late seventies. Through its personnel policies and practices, this extraordinary firm repudiates





ASIDE FROM the girl clerks, every employee in drafting room at Mohawk Development Service is 66 or older. Combined ages of these oldsters total more than three thousand years.

the great waste which arises from the practice of compulsory retirement at arbitrary ages. The story of its origin and functions is interesting.

In March of 1948, Mohawk opened its doors for business. At its helm was Laurence A. Hawkins, for thirty-three years Executive Research Engineer with General Electric. The idea had been planted in 70-year-old Hawkins' mind by David C. Prince, at that time Vice-President of General Electric. It looked good to Hawkins.

Mr. Hyatt is a free-lance writer who specializes in economics and sociology.

"I wasn't ready to quit," says Hawkins, holder of more than fifty patents, mostly in railway signaling. "There is great merit in hobbies, but a man whose mind for a half-century has been geared to solving complex engineering problems can't be expected to lose himself completely in his flowers and grandchildren."

Faced with the prospect of withering from boredom, Hawkins went to work on Prince's idea. It would take organizational know-how and plenty of convincing. He had lots of both. He rounded up two other victims of enforced idleness. They were Arthur R. Smith, then 70, a former manag-

ing engineer, and stocky Ray Stearns, also a septuagenarian and a key developer of the B-29 armament system. They agreed with Hawkins that "retirement is hell," and all three went on a determined man-hunt.

Most of the old men they wanted to interview were still around. Not one of them was happy, even though some were collecting pensions as well as Social Security. All were 65 or over. All were enthusiastic about getting back into harness.

So, early in 1948, six restless oldsters trudged to work—to jobs they knew all about but hadn't held in many a day. Each was bubbling with life — and new hope. And soon designs and blueprints for Diesel engines and other complex machines were coming off the drawing boards. Surprised, but satisfied, customers began spreading favorable comment about this group of old men. New contracts rolled in—from GE, American Locomotive, the Atomic Energy Commission, the Oil Institute of New York and many other top concerns. At the end of the first year the project had sixteen employees, all "too old" to work.

Mohawk now has fifty-odd contracts and many more than it can handle — fully 80 percent of them for defense production.

Mohawk has rigid regulations.

There are no time clocks, for none are needed. The men work a 5-day, 40-hour week and are paid only for hours worked. They receive the same hourly rates that prevail at GE, and Social Security is deducted from their checks.

Since all Mohawk key men are in the upper age brackets, it was thought at first that illness might occasionally keep some out of work, or even halt permanently their activities. However, the records show that the men are actually out less than they used to be before they were pensioned by their former employers.

A typical employee, Charles Spinnler, 72, and an able engineer, says: "We are working harder and better than we ever did before, because it's a matter of proving to ourselves as well as to others that we aren't useless and washed up."

The men at Mohawk, who less than five years ago, were "on the shelf," are now enjoying themselves and prolonging their lives in the way they love best. The deadly feelings of frustration and "uselessness" are gone. They are independent through their own efforts — a potent morale builder. Dr. Roger I. Lee, former president of the American Medical Association, says: "Death comes at retirement." The eminent physiologist, Dr. Anton J. Carlson, warns: "We are contributing to

biologic parasitism as well as wasting valuable resources by keeping in idleness older workers able to perform useful service. Work is a biologic and social duty as long as we can carry on."

*M*OHAWK IS A thriving, profitable concern. As Mohawk Secretary Ray Stearns explains: "We provide a reservoir of skilled older men to take on peak loads in existing industries... help them to stabilize their payrolls, minimize hiring and firing, and heighten their employees' sense of job security."

Hawkins is justifiably proud of his "old boys" and has workable ideas about forming other groups, getting old men back on the job in other fields. He and his associates have made a successful attack on premature retirement of skilled personnel. The success of their plan may well set a pattern that will provide satisfying work for the elderly everywhere and keep many off relief rolls.

There is also a long-range national consideration which we must take into account. Older persons are making up an ever increasing proportion of our population, and we are now enjoying the benefits of medical discoveries which can only speed this trend.

The Bureau of Employment Security points out that if we do not begin to take older persons

back into the labor force, the numbers of those in the population dependent upon younger workers must eventually drag down the standard of living.

There is no question that older people want to work. During the late war, some 750,000 persons who could have retired under the Social Security old-age and Survivors Insurance program stayed on their jobs. At that time, 70,000 persons who had already retired under the programs dropped their benefits and returned to work. True, the national emergency was greatly responsible.

Our labor potential, however, is not a program which we would see simply in emergency terms. Rather, we should regard the defense emergency as giving us an unprecedented opportunity to find the answer to a problem which has long faced us and which constantly grows in seriousness.

When is a worker "old"?

"AGING" IS NOT synonymous with "disability." Recent studies of the medical and psychological aspects of aging bear out the conclusion that older workers are not necessarily less physically able than younger workers. Employers who hire older workers—and they are few — assert that they are stable, dependable and conscientious.

Yet it will be many years before the barriers against hiring older

workers are broken down. And while we wait for better days, there is only one solution to the situation: the formation of groups such as the Mohawk Development Service.

In launching such an enterprise, the initial investment must be considered. Some vocational groups will require very little capital. But groups in the mechanical trades will necessarily have to dig down for equipment. In the case of Mohawk, the outlay was comparatively small — drawing and engineering tools, paper, ink. From there on the oldsters pitched in themselves. They swung hammers, pushed planes and saws, and constructed tables and cabinets, with no thought of arthritis, stiff joints and aching backs.

WORKERS IN ANY trade or profession on the "retired" list, but wanting to get back into harness, can organize a "Mohawk" business simply by rounding up a few workers in the same game with the same ideas.

Hawkins offers these pointers to those interested. The first thing is to make a survey of the community, since naturally much of the initial work will come locally. "This survey," says he, "should include the number of retired men or women who would like to work and the opinions of local industries as to how much use they

could make of a reservoir of skilled workers who could take over peak loads in those industries."

If a group wanting to establish such an organization happens to live in a community where a committee on the problems of the aging (and there is a growing number of these) is active, they should have little difficulty and plenty of assistance. The Chambers of Commerce, clubs and service groups can help, too.

What Mohawk has done for the highly skilled old men of Schenectady, Ralph C. Robinson of Sacramento, California, is doing for a group of unskilled personnel. Robinson, 80, began manufacturing a wire-twisting device two years ago. Today, he owns and operates a company employing twenty-two people. Not all of them are 65 or over, but age makes no difference to Robinson so long as the worker can do the job.

Not long ago, Mr. Robinson installed a large neon sign over his factory. It reads: *Life Begins at 80*. When brightly lit at night, it becomes a landmark throughout the area. Its message is dual: it shouts a warning to those who, nearing the age of 65, calmly await the ax that will cut them off their jobs and perhaps render them a burden on others. And it offers encouragement and new hope to those who stand firm. ■

WHAT MAKES A STATE?

State or Territory, Hawaii is a mature boundary of America in the Pacific!



A LITTLE OVER fifty years ago, the lush tropical land of Hawaii — at the time a free and independent republic — was admitted to the Union as a self-governing territory. Since then it has become the glamor spot of the Pacific — retaining the tempo of the past and the flavor of the Orient, but rejoicing in such American institutions as drugstores, New York fashions and deep freezes. And with typically American determination, it has made seventeen attempts to become a state.

Immediate statehood for Hawaii was one of the planks in the platforms of both major political parties in the last election, and Pres-

ident Eisenhower favored prompt action on this matter in his State of the Union message.

On the seventeenth try, the question of Hawaiian statehood passed the House. But it is currently languishing in the Senate, while flagmakers are busy presenting their new designs to the Library of Congress, to their Congressmen and to the newspaper rotogravure editors. (The final decision on the flag, if needed, will probably be made by a commission appointed by the President.)

Through the years, everyone seems to have been in favor of admitting Hawaii as a state except, perhaps, the congressmen who actually voted on the matter.

Since 1935, for example, five bipartisan congressional committees have investigated this subject (all of them recommended immediate statehood); thirty-one members of Congress have visited these idyllic islands (on business, for first-hand study); 600 witnesses have been heard in Washington (550 in favor of immediate statehood).

Forty leading national patriotic, religious, labor, farm and professional organizations have gone on record in favor of statehood for the Islands.

The majority of the nation's press has been for Hawaiian statehood. Newspaper editorials have pointed with pride to the sound, mature political, social and economic systems in the Islands. As an example of Hawaiian concern with civic responsibility, they reported that almost 90 percent of the registered voters of Honolulu voted in the 1952 elections in that city. They brought up the

fact that Hawaiian battle casualties in Korea are currently more than three times, percentagewise, greater than those of the rest of the country.

The delay in admitting Hawaii as a state is another instance of the historical fact that since the very beginnings of our country, any attempt to extend the boundaries of the Union has been bitterly resisted.

Probably the most famous example of this was the fight against admitting Louisiana. At that time, a representative from Massachusetts suggested a remedy if President Jefferson persisted in his attempt to keep this territory: "The bonds of the union must be dissolved — amicably, if they can, violently, if they must — rather than admit these Westerners."

There are other examples. A slightly confused legislator warned Congress against admitting Alabama: "You have no authority to throw the rights and property of the people to wild men on the Missouri . . . or the Mississippi." Daniel Webster viewed acceptance of Texas as a "very dangerous tendency — and one of doubtful consequence." There was a filibuster in the Senate against the admission of California as a state.

*H*AWAII COMPRISES a group of 20 islands, 9 of which are in-

Thumbnail Sketch

HAWAIIAN ECONOMY revolves around four items: pineapples, sugar, tourists and defense spending.

- Population — about 500,000.
 - Area — 6400 square miles.
 - Annual temperature — idyllic.
 - The Islands lie 2400 miles southwest of San Francisco — and Hawaiians keep a careful eye on their transportation systems, vital connecting links with the continental United States.
-

habited. The Islands have a land area of about 6400 square miles—approximately the size of Connecticut and Rhode Island combined.

Hawaii has a population of almost 500,000. (It outranks, in population, four states—Nevada, Wyoming, Delaware and Vermont.) About 17 percent of the people in the Islands are Caucasian, and the rest are Japanese, Hawaiian, Filipino and Chinese.

About 90 percent are native-born and American citizens. Many are third-, fourth-, even fifth-generation Hawaiians.

They are the products of a predominantly American, predominantly Christian culture which had its beginnings over a century and a half ago. At that time, the Islands were a stopping-off place for vessels from the American East Coast, on their way to China or returning from the Arctic whaling grounds.

In 1820, missionaries from New England—bringing with them doctors, teachers and technicians—came and stayed to build the structure of American democracy within the framework of a constitutional monarchy.

The Spanish-American War first brought up the strategic value of the Islands to the United States. By then, the patterns of democracy had already been set and a sound economy had been developed.

Hawaiians regard themselves as dramatic proof that in the right setting, the ancient ways of the Orient can mingle with the concepts of individual dignity and freedom embodied in the Declaration of Independence, the Constitution and the Bill of Rights.

The average Hawaiian will find his life little changed materially by the transition of his homeland from a territory to a state—because no matter what it is politically, state or territory, Hawaii is a thriving, modern American community. The average Hawaiian has respect for the past and for the various cultures that have contributed to the development of the Islands, but he is not limited by them. His is a progressive, pleasant community and it will continue to be so.

For example: Tuberculosis was once one of the primary causes of death and disability on the Islands. As late as 1944, the death rate from this disease was 55 per 100,000 persons. But as a result of civic concern, and intensive case finding, health education, rehabilitation and the availability of additional tuberculosis hospital beds, the death rate last year dropped to 15 per 100,000 persons.

Hawaii is one of the few areas in the world that can boast an available hospital bed for every tuberculosis patient needing care. All children of junior high school

age receive annual chest X-rays. Communicable disease rates and infant mortality rates in the Islands are among the lowest in the world.

For the typical Hawaiian, federal taxes will remain the same, whether his Islands are a state or a territory. He pays the same taxes that mainlanders do. (Last year, Hawaiians paid into the United States Treasury about \$138 million in federal income taxes, topping the amounts paid by nine states.)

State or territory, the draft laws remain in effect. Selective Service taps a youth in Hawaii in the same way it does any young man in continental United States.

As always, Hawaiians will have the same access to Federal Housing Administration loans on their homes, slum-clearance aid from the federal government and veterans' benefits.

Statehood, however, will bring one big immediate political difference: Hawaiians will vote for President and Vice-President of the United States. Also, they will elect members of the House and of the Senate — and their own governor, who has always been appointed by the President.

As residents of a state — rather than a territory — Hawaiians no longer would have to scan every proposed bill to be sure that it includes the words “and the ter-

ritories.” Somehow, these words were left out of the original Social Security bill, and it took several years to remedy the situation.

A Hawaiian worker earns about the same income his counterpart on the mainland does. Because of the idyllic climate, the Hawaiian is more apt to work in an “open-air factory” — one of the large sugar or pineapple plantations which are the latest examples of developments in mechanized agriculture.

The Taft-Hartley Act applies to the Islands; so do Social Security, Unemployment Compensation and the Minimum Wage Law.

Hawaiian industry, too, will feel little immediate change in any new status for the Islands. Farm price supports, sugar quotas and agricultural conservation payments will remain the same, no matter what the political status of Hawaii.

The shipping and airlines industries will continue to be vital to the Islands — bringing in tourists, food and other materials, and carrying pineapples, sugar, flowers and tourists to the mainland.

The economy of the Islands centers around four principal items: defense spending by the federal government (which accounts for almost one-half of the total income — around \$220 million), sugar (\$138 million), pine-

apples (\$100 million), and tourists and military transients (\$45 million). Two other industries—live-stock and fishing — contribute smaller amounts.

*H*AWAIIANS IMPORT most of the goods used in their everyday living. The Islands are one of the best customers of the continental United States, importing food, clothing, shoes, motor cars, household appliances, construction materials, machinery and equipment, fuel, medical supplies and other items amounting to about \$382 million a year.

For the past twenty years, they have ranked seventh and eighth

as customers of the continental United States — ahead of countries like Italy, China, Cuba, the Philippines and Germany.

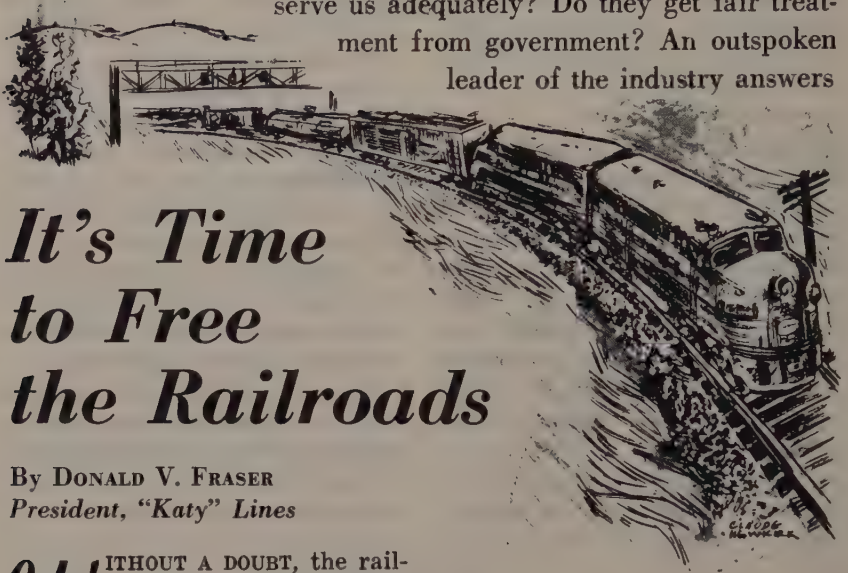
The attainment of statehood will mean one big immediate change for Hawaiian industry: the Islands will be able to refine the sugar they grow. Prohibition against refining was tacked onto the sugar-quota system several years ago, and Hawaiian sugar interests had to build a \$25-million sugar refinery in California.

State or territory, the Islands and the people will continue in their traditional role as the proud outpost of American culture and ideals in the Pacific. ■



"You got a raise."

Do our railroads lag behind the times? Do they serve us adequately? Do they get fair treatment from government? An outspoken leader of the industry answers



It's Time to Free the Railroads

By DONALD V. FRASER
President, "Katy" Lines

WITHOUT A DOUBT, the railroads constitute the most misunderstood and misinterpreted industry in our nation. Mainly because of this, they face serious handicaps which in turn penalize the nation today.

Why the misunderstandings? For one thing, railroads are a service institution, a highly regulated one, not generally recognized by the public as being a competitive enterprise as well. The fact that railroads are created by private investment and are subject to the same stresses and strains as any other business has not been fully appreciated.

It has not sufficiently "sunk in" that railroads should be permitted

to operate on a businesslike, profit-motive basis.

Moreover, the steady improvement in railroading has necessarily been evolutionary rather than revolutionary. Not being spectacular, it has largely escaped public notice. Here's the kind of progress I mean, looking back over the past 30 years.

In 1921 the railroad industry owned more than 2.5 million freight cars, with which they produced approximately 310 billion ton-miles of freight service. In 1951, just thirty years later, railroad freight car ownership had dropped to some 2 million units,

but produced 647 billion ton-miles of freight transportation — more than twice as good a job with less equipment!

The diesel locomotive had not even been thought of in 1921, but today, 70 percent of the nation's railroad motive power is *dieselized*. Nearly all of this equipment has been purchased and put into service since 1940.

Research and technical development push ahead every day. Take the steel rail, the very foundation of railroad operations. Would you guess that there had been much change in the rail used today compared with that used thirty years ago? Because of advances in metallurgy, manufacture and design, rail being laid today is only about one-fourth as vulnerable to breakage as that laid thirty years ago, and lasts half again as long.

The life of the lowly cross-tie has more than doubled in that same period. Like improvements may be shown for automatic signaling, traffic control and tools.

*P*RIOR TO World War II, the railroads of this country hauled a ton of freight 2850 miles a year for every person in the United States. Since then, although the population of our country has increased by more than 20 million, the railroads hauled in 1951 a ton of freight 4130 miles for every per-

son in the country — an increase of 45 percent in transportation service *per capita*!

I mention these examples to bring out the fact that improvements in railroad operations will stand comparison with those of any segment of American industry. Very definitely this is not the record of an industry which could be termed "static" or "decadent"! However, the steady progress in railroading was accomplished in the face of some tall obstacles. These have been, first, outmoded regulatory laws, and second, the development of competitive forms of transportation generously aided by government subsidies. It is not too much to say that a less economy-minded, less imaginative and alert railroad management very likely could not have operated the railroad industry through all the economic and political bad weather of the past thirty years — and kept it intact and in private ownership.

A millstone around the neck of railroad management is the curbs set on pricing of the product the railroads have to sell—transportation. During periods of rapidly rising wage and material costs, such as we have experienced in

Now President of the Missouri-Kansas-Texas Railroad, Mr. Fraser started his railroad career in 1916 as a clerk in the purchasing department of the MKT.

recent years, the typical business enterprise could mark up its prices to keep pace—but not so the railroads.

For example, the working time of employees for which the railroads paid \$1.00 in 1921, today costs the roads almost \$3.00. Materials and supplies which cost \$1.00 in 1921, today cost in the neighborhood of \$2.25. Back in 1921, taxes took about 5 cents out of every dollar of railroad revenue. Today this figure has more than doubled.

And yet, the ton-mile of freight service for which a shipper in 1921 paid \$1.00, today has increased less than 5 percent—to about \$1.05!

In every instance when we've asked for authority to charge higher rates we've had to wait many months before an answer was handed down from the Interstate Commerce Commission. Then, in most cases, only a part of the increase requested was granted. In the meantime, the spiral of inflation had usually swallowed up the potential extra revenue needed from the higher rates before they could be put into effect.

The result of this slow process in getting less-than-needed rate increases has been to depress railroad earnings to such a low level that venture capital in our industry is almost nonexistent.

Consider railroad earnings in

the lush years since the end of World War II. These have been years of good earnings for business, agriculture and industry generally, and returns of 5 to 20 percent on net property investment have been the rule rather than the exception, with a return of about 10 percent the average for many large corporations. In that same period the average return for our nation's railroads was less than 4 percent.

The diesel locomotive, incidentally, may almost be termed a God-send to the railroads because of cost savings. Railroad management was quick to take advantage of this new machine, and some concede it makes the difference between solvency and bankruptcy of the industry today.

THE INVESTOR looks with a cool eye upon an industry that does not hold promise of good earnings. Venture capital for expansion and improvement programs has not been forthcoming to railroad management. Yet, in the post-war years, the railroads have managed to invest more than a billion dollars a year on improvements of all kinds.

Because of the lack of venture capital, however, it has been necessary to finance new diesel locomotives, and other new rolling stock and equipment, largely through equipment "trusts" or

mortgages, and from working capital and current earnings. Consequently, equipment obligations of the industry have been tripled since 1945, and working capital substantially reduced. Interest and principal payments to stockholders must be made out of current earnings.

Another serious problem in railroad operation is the development, largely within the past thirty years, of competing forms of transportation that are benefited by government subsidies.

Over the past half-century, the federal government has appropriated more than \$64 billion for nonrail transportation facilities, and this spending goes on at the rate of better than a billion dollars a year. The result is that highway, waterway and airport facilities have been provided at public expense. This allows private operators to do business at little operating cost.

The railroads are the only agency of transportation (except

"GIVE THE RAILROADS fair treatment. Beyond that, there is no doubt of growth and success. In the last analysis, there is no form of transportation yet devised by man to equal the efficiency of the steel wheel rolling on steel track, and the flexibility of the single railroad car being assembled in trains for mass movement."

— Donald V. Fraser

the pipe lines) which is completely self-supporting, and which, in addition, pays some \$200 million annually into public coffers in property taxes. Yet the railroads must compete on an equal basis with these government-supported competitors.

To the extent that federal and local governments subsidize the highway, water and air carriers, the taxpayer correspondingly increases his over-all transportation expense.

I could go down the list of other serious problems confronting the railroads, such as regulations that overlap the prerogatives of management; restrictions covering methods of train operation; controls by both federal and state regulatory bodies which frequently require the operation of unprofitable rail service "in the public interest," and many others.

ON THE KATY LINES the pressure of some of these problems contributed to our being forced to go more than twenty years without paying dividends on our preferred stock.

Back in the depression years of the '30s the Katy could very easily have fallen prey to the bankruptcy courts, but it did not. It was, in fact, one of the few Southwestern roads that did survive and stay solvent, and during a time when more than one-third of

the railroads of our nation were forced into bankruptcy. Earnings were so depressed that they barely covered operating costs, and we underwent periods when there were grave doubts that we could even meet current payroll requirements.

Just prior to, and throughout World War II, earnings were increased, of course, because of heavy war traffic. The first thing we did with these extra earnings was rehabilitate the track, right-of-way and fixed facilities in order to handle the crush of freight and passenger traffic.

In the post-war period huge investments were necessary for new diesel locomotive power and new rolling stock in order to keep the railroad in a competitive position. We also began a program of catching up with interest arrearages due on an issue of Adjustment Mortgage Bonds, which came ahead of dividend payments on stock.

Only this past January did we finally reach a point where we could resume paying dividends on our preferred stock.

I believe I have made it plain that railroad management in gen-

eral is confronted with unique and disturbing problems, some of them beyond its control. It is going to take public awareness of these conditions — conditions which bear directly upon the health of our national economy — before some of them are corrected.

There are bright aspects in the picture, however, and good reason for optimism. In my railroad experience, I have never seen a time when public sentiment has been more favorable toward the railroads than it is today. The misunderstandings are beginning to clear up.

It's being admitted that the railroads no longer enjoy a monopoly in transportation, and that laws and regulations should be modified and clarified so that all agencies of transportation shall be self-supporting, on an equal competitive footing. That is all the railroads ask. Give them the right to operate their properties in an atmosphere of equality in regulation and equality in competition, and I believe you would see the magnificent progress of the past dwarfed by the super-railroad plant that would be developed in the future. ■

Discovery of the Month

A UNIVERSITY OF CHICAGO medical professor has discovered another benefit of our high standard of living. Fifty years ago, he claims, women wore long skirts not because of modesty, but to camouflage bowlegs and wide hips. Nutrition research and better food habits have slimmed women into present fashions.

F...with facts and figures!

BEHIND THE IMPOSING, formidable title of United Productions of America is a small group of talented young people who in ten years have managed to build up an almost million-dollar-a-year business out of practically nothing except ingenuity and initiative.

UPA's business is producing cartoons of all types; their specialty is the institutional public relations film. They tackle each assignment with the skill and imagination that won them an Academy Award for their *Gerald McBoing-Boing*. As a result, UPA industrial films are effective on three levels — educational, entertainment and artistic.

An example of this is the cartoon on the following pages. "Man on the Land" was done for the American Petroleum Institute, as an educational film to show the effects of petroleum on the growth and maturing of civilization. The Institute felt its audience was limited to business groups and schools. But suddenly, this spring there appeared a bonus audience of about 15 million more people — all of them paying admission — when the cartoon was booked into 3000 first-run movie houses across

the country, purely on its entertainment value.

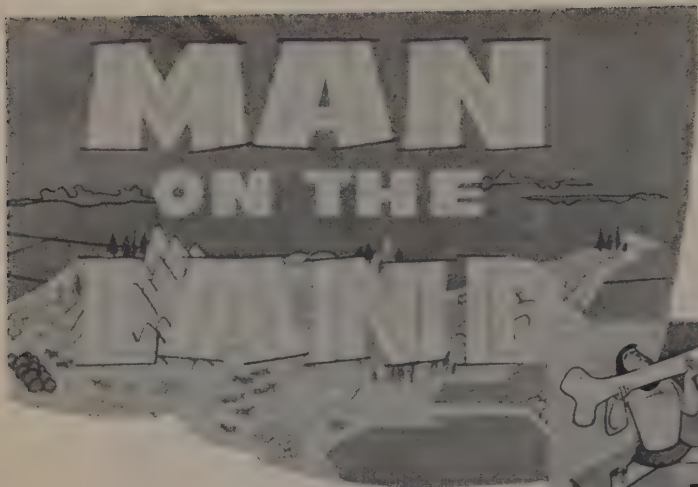
UPA was formed during the war years when Steve Bosustow and a crew of six associates—which grew into the present staff of 75—made Army and Navy training films, industrial safety cartoons and shorts for the Office of War Information and the State Department.

Today, 41-year-old Bosustow — described as "that incredible combination: an artist with a flair for business"—is spokesman and symbol of the group. All of the top creative people own company stock which they have bought, over the years, out of their own paychecks. They shuttle between UPA's Burbank, Calif. and New York offices. They have a contract with Columbia Pictures for twelve entertainment cartoons a year (along with Gerald, their creations include Willie the Kid and Mr. Magoo).

Long-range plans of the company center about a labor of love — industry-sponsored educational films for schools, libraries and colleges.

(Continued) ➡





"**MAN ON THE LAND**" is the film story of how two of America's greatest industries, agriculture and petroleum, joined forces to help obtain from the land the world's highest standard of living.

The story begins in another continent, before recorded history—but even then power meant production. First step toward more power was the discovery of crude weapons, which increased success in hunting.



THEN MAN stumbled onto the idea of taming animals—penning them up—and livestock became the first form of expanding wealth. Freed from an incessant search for food . . .

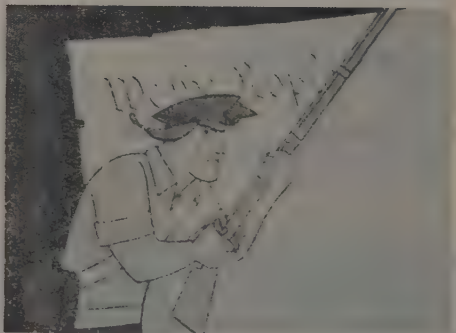
. . . early man could settle and build a home. To feed his penned animals, he had to grow food, develop primitive plows. Then he learned to harness his animals and use their power to his advantage.



(Continued) ➡

POLITICAL EVENTS set back his personal development, though, and man on the land found himself held in bondage to the noble on the hill. He was a serf. He worked not only for himself, but for the nobleman as well. Generations later came

the discovery of the New World and many men—farmers among them—chose the long road to freedom, even though for a time it meant danger and privation. But they had faith that a better life was ahead. As the population of his new nation increased, love of freedom and a desire to own more and better land led many a farmer westward.



MORE PEOPLE meant more mouths to feed, and required more land on which to grow food. The farmer needed more power—horse-power wasn't enough. Attempts and devices to harness wind, water, gas and eventually steam to farm equipment were tried. The best source of power was discovered by accident by the man who found oil in Pennsylvania in 1859. This made possible the development of new and superior power-producing products. Lubricants aided advances in farm machinery; oils and greases permitted locomotives and cars to achieve higher speeds and longer runs. This helped make possible the rapid expansion of railroads westward and develop the new country.

(Continued)





AROUND THE TURN of the century, oil began to drive tractors, automobiles, trucks and ships. To the farmer, oil helped bring power that could out-perform any number of work animals and power that required no crops to feed it, the way animal power did. Competition produced petroleum-powered vehicles of all sorts—cheaper, more efficient tractors and trucks. As farms became mechanized, more and more farm products flowed to market. Farmers cultivated more land, raised more crops for every hour in the field than ever before—and they also had time for leisure. Today, one farm worker supports more than fifteen people. In 1900, he could support only eight. This is one of the reasons that Americans eat more and better food than ever before, and one of the big reasons that we are the first nation to banish the fear of want that darkens much of the globe.

WHO OWNS AMERICA?

*Just about all the people living in it — and
most of them within the modest income
group — answers a noted economist*

By HAROLD F. CLARK

IN EVERY AGE, there have been those who thought the solution to existing economic problems was to divide up the wealth of the country.

Let's show the fallacy of that notion with this example.

If we took the total wealth of the United States — a trillion dollars—and divided it evenly among the 50 million families of our population, it would buy a \$20,000 house for each family unit.

But there would be nothing in the house; not a piece of furniture; not a piece of clothing; there would be no food. As a matter of fact, there would be no wealth in the country of any kind. There would be no roads or railroads, no factories, no offices, churches

or schools. There would be no farms, tools and equipment. The entire trillion dollars would be used up in just providing the houses. There would be no electric power or light; there would be no telephones. There would literally be nothing else.

If this is all the wealth there is in our country, it is of great importance to produce more. It is important to find out who owns America, but it is also important to find out if it is owned in such a way that the ownership will lead to greater production for the greater benefit of all. Clearly, if all of our wealth were in a \$20,000 house for each family, our economy would come practically to a standstill.

Today, in America, the wealth is already remarkably distributed. Most of the people own most of the wealth: 83 percent of all income in the country goes to persons making less than \$7500 per

Dr. Clark, economics consultant to CHALLENGE MAGAZINE, is Professor of Education at Teachers College, Columbia University in New York.

year; two-thirds of the wealth of America is owned by people making less than \$7500 per year.

FARMS ACCOUNT for \$130 billion of America's wealth. This farm wealth, including equipment, tools, machinery and livestock, is remarkably well distributed. It is probably safe to say that 5 million families — which include about 25 million people — own more than 5 million of the 6 million farms in the country. It is also a safe assumption that more than \$100 billion of the farm wealth is owned by people with incomes of less than \$7500 per year.

But the important question is not so much who owns the farms, but whether the ownership is such that it leads to better and better machinery, higher and more efficient production, higher income for the farmer and relatively cheap food for the rest of the population. The point is to move towards the distribution of farm wealth that will, in turn, produce the greatest amount of wealth for everybody. In some places, this might be a slow movement towards an even greater equalization of agricultural wealth. In other places, however, it might require a greater concentration of agricultural wealth in fewer hands for still more efficient operation.

Some 20 percent of the present worth of America — \$235 billion — is in houses. About half of all the houses in the country are owned by the people who live in them. Most of these are people with modest incomes. If we assume that every one of America's 150 million people lives in some sort of a house, this means that about 75 million people own approximately \$115 billion worth of housing. Probably another 25 percent of the houses are either directly owned by people of small incomes, who own one or more houses which they rent out, or are indirectly owned by people of modest incomes whose savings have been invested in housing through insurance companies, banks and other savings institutions. This would account for another \$60 billion of the wealth in America's houses. Thus a total of approximately \$175 billion worth of housing is owned by about 113 million people, whose incomes are \$7500 or less.

Household furniture, equipment, appliances and automobiles owned by individuals are worth \$125 billion. Divided up among all the families in the country, this wealth represents approximately \$2500 per family. The automobile may be worth about \$700 of this and the household furniture, equipment and appliances perhaps as much as \$1800.

Here again, the only possible way to raise the living standard of each family in the country is by increasing production, and not by dividing up the existing wealth. It would be fatal and foolish to take any money from factories, machinery and farms and put it into household goods, because there would be no means with which to produce more goods.

The railroads, light, power, gas and telephone companies are worth approximately \$80 billion. Most of these are large companies. Their ownership is represented largely by stocks and bonds. It is difficult to make accurate estimates of the division of ownership; the major telephone company alone, however, has more than one million stockholders. It would seem as though another one to two million owners would be involved in the other companies as a minimum. It is difficult to be sure about the distribution of this ownership — but well over half of it is in the hands of people with incomes of less than \$7500.

OUR MINING AND OIL companies are worth about \$45 billion. Because of the high risk involved, investment in these companies tends to be by people of substantial means; however, stock ownership by people of modest incomes is substantial in such concerns. One oil company alone has

more than a quarter million stockholders. There are almost one million people involved in the ownership of the mining and oil companies of the country — probably 4 million, counting their families.

Stores, offices, amusement and service buildings constitute about \$90 billion of wealth in the country. This represents close to 10 percent of the total wealth. Hundreds of thousands of small stores are owned by their operators. The same is true of tens of thousands of small service buildings which provide services of all kinds. Probably one-third of this wealth is owned directly by small owners. Perhaps another \$15 billion is owned by people with small incomes who have invested in larger concerns. Consequently, about \$45 billion is owned by probably 3 million people — representing approximately 12 million with their families.

The value of goods for sale in the stores, factories and other places is \$105 billion. More than one-third of this amount is in the two million small retail outlets in the United States and in the tens of thousands of small factories. Probably another third is owned by people of small incomes through investments in larger stores and factories. It seems reasonable to assume that about two-thirds of this wealth — about \$70 billion — is owned by people with

incomes under \$7500. It is safe to assume that at least 5 million people are involved in this ownership of goods.

FACTORIES, machinery and equipment — amounting to about \$190 billion — make up the second largest item of wealth in the country. The long-range economic welfare of the nation depends in a large degree upon the size and efficiency of our industrial organization. Any reduction in the value of this item would quickly result in a reduced standard of living for everybody. It is only by getting more money in better tools of production that the total wealth of everyone can be increased.

If we could double the amount of money in our factories, machines, and allied industry, we probably could get a great rise in our standard of living.

The factories and machinery of America are owned by millions of people. How many millions is difficult to say. Many small factories are owned either by a family or a small group of people. The large factories are owned by vast numbers of different people — some of the biggest industrial concerns have as many as four or five hundred thousand stockholders. About 5 million different families, representing about 20 million persons, are involved in ownership of our factories.

It is perfectly clear that we could divide up the wealth of the United States and each family would have a \$20,000 house, but there would be nothing left with which to keep producing additional wealth—our economic world would soon collapse.

Any further move toward equality might add two or three thousand dollars to the immediate wealth of the average family, but, in the long run, it would take the money away from our factories and machinery and lead to a great decrease in income for everyone, and stop our economic growth completely.

Clearly, there are enormous possibilities and almost unbelievable opportunities for the expansion of our economy. Our 50 million families could use more of almost everything. But the only way to get this is to increase production. And to get this increased production, far more savings must be made, and these savings must go into better productive equipment.

In one way or another, more than 100 million people own America. Most of the other 50 million of our population will, at some time in their lives, own substantial wealth. All have a great stake in seeing that the wealth devoted to production is greatly increased, because all benefit directly from this. ■

THE RAINMAKERS

A bitter controversy rages over whether or not rainmaking produces useful economic results

By BRUCE BLIVEN

WHAT RAINMAKERS do, in essence, is to try to make it rain in one place rather than another, and sooner rather than later. In fact, however, their activities if successful can be of great importance. They can bring into cultivation millions of acres not now used, increase the yield on other millions, and conceivably damage still other areas, by taking away the rainfall that would otherwise be theirs.

For many generations, and quite possibly for the whole history of the human race, men have professed to be able, by various means, to create rain in time of drought. Scores of savage cultures in all parts of the world have employed prayers, incantations, and sacrifices by medicine men to propitiate the gods and bring badly needed water down upon the parched earth. In more recent times, loud explosions have been a favorite device, possibly on the theory that thunderclaps are loud explosions, and often accompany

Bruce Bliven, author and lecturer, has written on a variety of scientific subjects for the past twenty years. "The Rainmakers" is reprinted from "Preview for Tomorrow," by permission of Alfred A. Knopf, Inc. Copyright 1953 by Bruce Bliven.



rainstorms. A common superstition is that a modern war, with heavy artillery bombardment, at least temporarily changes the climate of the region where it takes place. Meteorologists deny that this is possible, pointing out that the biggest bang mankind is capable of is insignificant compared with common natural phenomena.

How does modern, scientific rainmaking work? In nature, a cloud secretes rain about the way an oyster secretes a pearl. Super-cooled water has a greater vapor pressure than ice; if ice crystals are present in a super-cooled cloud, they grow and the water drops evaporate, until the enlarged ice crystals fall to earth as rain or snow, depending upon the degree of cold. Dr. Irving Langmuir, Nobel Prize-winning American physicist long associated with the General Electric Company, whose name is one of the most important associated with modern rainmaking, suggests that in cumulus clouds, drops of water rising with an updraft get larger and larger, and "grow by fission," dividing and redividing; when the updraft stops, precipitation starts.

In rainmaking, dry ice or some other substance is mixed with a cloud, when all other conditions are right, to serve as the nuclei of the raindrops.

Extensive experiments began at

the General Electric Company research laboratories in 1946. Vincent J. Schaefer, one of the research men, worked with an ordinary home food-freezer. He blew his breath into the freezer, and then put the propeller of a model airplane into it; when the blades were rotated, at a temperature of zero, the propeller "iced up" on its leading edges.

On one occasion, the inside of the freezer was slow in cooling down, and Schaefer impatiently put in some dry ice. He was astonished to find that in a few seconds, millions of ice crystals had been formed; examined under the microscope these proved to be perfect, tiny, six-sided snowflakes. When he again breathed into the cold box, a second super-cooled cloud formed momentarily, but rapidly evaporated and condensed on the ice crystals, the condition which in nature precedes rain.

On November 15, 1946, an experiment was made that may prove of great historic importance. Scientists dropped dry ice, from an airplane, on a super-cooled cloud near Mt. Graylock, Massachusetts, producing snow in the air, though it evaporated before it reached the ground.

Experiments in cloud-seeding with salt have seemed successful, particularly in the tropics, preventing storms and especially hail and lightning.

In commercial operations, silver iodide is usually produced from smoke generators on the ground; the chemical is either mixed with charcoal and burned, or it is ejected from something roughly like a blowtorch, mixed with bottled gas or compressed hydrogen. This technique can be used in an airplane, or small pieces of red-hot charcoal impregnated with silver iodide can be dropped from the plane to burn themselves out in the course of falling a few hundred feet, leaving their silver iodide behind. An advantage of this chemical is its cheapness. One gram of it, costing two cents, can produce at zero temperature 10 million billion ice crystals, enough to seed from 200 to 2000 *cubic miles* of super-cooled clouds; or to put it another way, a smoke generator working one hour, at a cost for raw material of \$2.00 can seed 30,000 cubic miles.

BEGINNING IN 1947, and continuing for five years, Dr. Langmuir participated in a rainmaking experiment with the U.S. Army and Navy, aided by the Air Force, and called Project Cirrus. He thinks there is no doubt at all that during a period of eighteen months, ending in July, 1951, Project Cirrus had an important effect on the weather throughout the entire eastern two-thirds of the United States.

Toward the end of the experimental period, the seeming cause-and-effect relationship between West and East faded out. But by that time, it is pointed out, numerous private individuals were engaged in cloud-seeding all over the West, and at all times of the week, thus nullifying any cyclic weather effect that Project Cirrus might have been creating.

Dr. Langmuir was careful not to say that this project "made rain;" but he thinks that it did "time the arrival of rainstorms."

In the summer of 1951 there were two almost unprecedented natural phenomena, the \$2 billion flood on the Kaw (The Kansas) River, and the almost equally serious drought centered in Texas, New Mexico, and Arizona. Naturally, no meteorologist is going to "claim credit" for these disasters; but it is a striking coincidence, if nothing more, that they should have coincided with Project Cirrus and the increasingly extensive rainmaking all over the West by private individuals.

Whether rainmaking is actually possible with the useful economic results is the subject of a bitter controversy still raging among meteorologists. In general, the U.S. Weather Bureau has been highly skeptical of the theory, being willing to say only that cloud-seeding may have some effect on precipitation. Weather Bureau

men point out that silver iodide, sent aloft in the form of smoke, loses nearly all its effectiveness in the presence of bright sunlight. They claim we do not yet know enough about what happens inside a cloud to say with any confidence whether artificial disturbance can have any important effect.

*B*UT WHILE the government men are cautious, other people are enthusiastically adopting the new technique. When New York City experienced, in 1949, an unparalleled drought in the upstate watershed from which it gets most of its water, it employed Dr. W. E. Howell, a meteorologist of Harvard University, as rainmaker. Dr. Howell at various times over a period of months, when conditions were favorable, used both the techniques mentioned above; and it is a fact that it rained in the watershed — rained enough to end the drought and to embroil New York City in damage suits aggregating more than \$2 million from owners of summer resorts and from farmers. Dr. Howell, with what proved to be highly desirable caution, consistently refused to take credit for any of the rain, thereby greatly aiding the legal position of the New York City government.

In the Far West, scores of rainmakers are in business, taking fees from ranchers and orchard-

ists for causing rain to fall in their vicinity rather than somewhere else. Lawsuits arising from their operations have become commonplace over a very wide area. One of the leaders in rainmaking is Dr. Irving P. Krick of the Water Resources Development Corporation, of Denver, whose activities cover the entire West. (Dr. Krick's reputation as a meteorologist rests partly on the fact that he helped General Eisenhower decide the date for the invasion of Normandy in 1944.) His record of successes seems, on its face, to be amazingly high; about six times out of seven, in the areas where he works, rain has fallen in excess of the average for recent years for that region. When he was hired by ranchers in eastern Colorado to try to augment the snowfall in the Rockies west of them, so that they could benefit from the runoff in the Spring, after the snow melted, he evoked violent protest from towns situated high in the mountains. The inhabitants of these towns show no skepticism regarding the success of Dr. Krick's activities. In fact, they charge that he created an unparalleled accumulation of snow, blocking the highways, isolating some communities, and even causing certain mine tunnels near the surface to cave in.

About one-third of the land area of the United States does not get

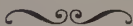
enough rain to permit continuous year - in, year - out agriculture based on rainfall alone; much of this area would blossom bountifully if the present rainfall were increased about 50 percent. Dr. Krick points out that if the rain on any given piece of land is increased even 1 or 2 percent because of his activities, the enhanced value of the crops that year will probably more than cover the cost of his activities. At the beginning of 1952, he was reported to have annual contracts for rainmaking activities with the owners of about 325 million acres of land at a cost of about one cent an acre.

IF THE RAINMAKERS turn out to be right, the future significance of their work could hardly be overstated. As Mr. Vonnegut remarks (in *Scientific American*):

... If, as appears to be the case, man is able to produce rainfall over large areas by cloud seeding, it means that he is beginning to control energy on a scale that makes his present energy resources seem trivial by comparison. Wisely used, cloud seeding may some day enable us not only to make rain but to initiate and direct storms and to exercise a considerable control over the atmospheric circulation on our planet.

An even more sweeping prediction comes from Gen. George C. Kenney, lately Commander of the U.S. Strategic Air Command:

The nation which first learns to plot the paths of air masses accurately and learns to control the time and place of precipitation will dominate the globe. ■



Whistle While You Work

SOME RECENT COMMENTS about the business of earning a living.

- A Detroit bus driver, when heckled by women passengers: "I'm sick of people. I quit."
- A Duluth, Minn., Civil War veteran, on how to become a success in the Army: "I got my job as drummer boy in our outfit by knocking the block off the only other applicant."
- A Montgomery, Ala., woman's prize-winning advice to state employees on how to improve efficiency in state government: "If you don't like your job, quit it and get another one."
- A Loew's, Inc., stockholder, in a letter to management: "It appears strange that our company requires the services of twelve vice-presidents, whereas the United States seems to survive with but one."

BACK TO TUSCALOOSA



By FRED R. SMITH

THE SOUTHERN RAILROAD'S crack streamliner, *The Southerner*, left New York's Pennsylvania Station at 4:30 in the afternoon, and after the brief trip in the darkness through the tunnel under the Hudson River, gathered speed through the twilight of the Jersey meadows.

I was going back home to Tuscaloosa. Would it be so different, this new-old frontier 1000 miles from my midtown Manhattan desk? What would the much-discussed industrial revolution in the Southeast have done to the piney hills of my home state?

As I looked out on the heavily industrial landscape, I remembered my first trip North from Alabama—five years ago. I had been constantly astonished, from Baltimore to New York, by the succession of factories smudging up the countryside, busily making the things one sees advertised in all the magazines — toothpaste and radiators, medicines and washing machines. To an eye accustomed to the fields and the meadows of the Deep South, it wasn't pretty — it still isn't a pleasing sight to me — but it was awesome.



—Photos courtesy Tuscaloosa Chamber of Commerce

An ex-Southerner returns home to find a new, industrialized South (left) which still retains its charm of old (above)

I woke up during the night to see, gliding by my window, the streaks of fluorescence that are the modern, low-built textile mills of North and South Carolina. I looked out at high-tension towers—marching from generating plant to factory and city—carrying the low-cost power that is one of the major contributions to the metamorphosis of the Southland.

Twenty hours after I had left Penn Station in New York, I was in Tuscaloosa.

As I DROVE with my family to our home—four miles from the

flagpole that marks the center of town, yet still inside the recently expanded city limits—I looked for the changes. It didn't take me long to see a very dramatic one.

On a hill at an intersection of the four-lane highway that comes into the town from Birmingham stands the town's new hospital. Seven stories high, the third tallest building in town, its sleekly modern granite-and-brick facade

Now a New Yorker, Mr. Smith, one of the editors of "True Magazine," was born and educated in Tuscaloosa, Ala. The first time he left his home town was for his period of service with the United States Army, after which he came North.

houses 240 beds — an impressive contrast to the 32-bed hospital it replaces. This one structure indicated to me the startling maturity of the town, which grew from a total population of 27,493 in 1940 to 46,396 in 1950.

It is even more a monument to the civic-mindedness of the community; for to build the \$3 million structure, the people of Tuscaloosa levied upon themselves a 1 percent sales tax to meet their half of the cost. The other half was supplied by the federal government under the Hill-Burton Act of 1949, which provides for federal grants-in-aid to hospital building programs. Now that the hospital is paid for, the town has floated \$3 million in bonds to build new schools.

I saw other evidences of growth, too. The old town — incorporated in 1819 — seems to have burst its seams. In every direction new housing developments have spread through gracefully curving streets filled with picture-windowed ranch houses, Cape Cod cottages and California bungalows. Each development bore a community name: The Downs, Druid Gardens, Windsor Drive. If someone had asked me for directions, I would not have been able to supply them, for the new landmarks were totally unfamiliar to me.

Since 1940, a total of 4128 new homes has been built in Tusca-

loosa — and they can be rented for from \$40 to \$100 per month, cheaper than most Manhattan one-and-a-half room apartments. There is no housing shortage, they told me, for the flourishing construction industry has kept up with demand.

For all its growth, the flavor of the town has not been changed. University Avenue and Broad Street, Queen City and Greensboro Avenue seemed even broader than I had remembered them. The hundreds of old oaks that give the town its nickname of Druid City seemed even more beautiful. The old homes — belonging to the Gorgases, the Cochranes, the Mayfields — with their ante-bellum white columns and magnolia trees still recall the quiet elegance of the town's more leisurely past in the midst of the new-day bustle.

SATURDAY IS still market day. The farmers who have not moved to the city to work in the paper mill or the tire plant still bring their broods to town to shop and to talk, standing at the corner in front of Brown's Department Store (it used to be Brown's Dollar Store) or on the courthouse lawn, where hell-fire preachers exhort everyone within ear range.

The campus of the University of Alabama has relaxed from the immediate post-war days when it was overcrowded with veterans.

Now, it is the same old haven of Greek-revival buildings and great green quadrangles — with a new physics building and new dormitories and a new alumni building to show that *it* isn't standing still, either.

But for all the town's sameness, I found there was a difference, too — one hard to isolate. I think it could best be described as an aura of prosperity.

There are now more new cars than I was used to seeing. Motor vehicle registration has reached 20,000 (a two-fold increase since my last visit), and parking meters have had to be installed in the business area.

Television aeriels are on many roofs; the nearest station is Birmingham, sixty miles to the northeast

Air conditioning is the big talk. Everyone either has it or is getting it or is thinking about it.

"They used to settle for a palmetto fan or a glass of lemonade," our druggist commented wryly.

WHAT HAS BROUGHT this new prosperity to my home town?

Many things, of course. One reason is that Tuscaloosa is a typical example of the gradual development of the South that has been going on since the 1930s.

But this recent, dynamic regional change in the South can be traced almost directly to the in-

spiration and leadership of an organization that one of my former college professors told me about — The Southern Association of Science and Industry. This is a non-profit, non-political group of university professors, scientists and business executives who banded together — about ten years ago — to promote scientific research and to encourage Southern industrial development.

"We've tried to provide the facilities and incentives for our young people to stay home in the South and carve out their careers here," my former professor explained. "We've tried to improve agriculture, encourage new industries and expand our educational facilities. I think maybe we're in sight of our goals."

On a local level, Tuscaloosa's leading businessmen have formed a New Industries Committee, and I went to them for further information.

There are two industries now employing over 1000 employees each — the Gulf States Paper Corporation, one of the country's largest manufacturers of Kraft paper, and the Central Foundry Company, producers of soil pipe. Both have been around for a long time, but both have grown with the city in the last few years.

The new industries that have been attracted to town have caused the diversification that is

making Tuscaloosa what Harry Pritchett, a real estate man and president of the Committee, calls "depression-proof."

"We're working on diversification on two levels—both in industry and in agriculture," another member of the New Industries Committee told me at lunch one day. That way, if one type of plant happens to hit a slump, there is more of a chance for workers to be absorbed in other industries.

"The same holds true for agriculture. If a farmer has a number of crops, he'll be better able to stand an occasional crop failure, because he'll have other crops to fall back on. Cotton is still important in Alabama, but it isn't the central element in our economy, the way it used to be."

Now, I found, Tuscaloosa has developed a varied economic structure consisting of mercantile establishments and industrial plants—besides its rich surrounding agricultural area. A slump in one phase of the local economy won't necessarily mean a general local recession.

Here are examples of the diversification of industry:

- Immediately after World War II, the B. F. Goodrich Company began producing tires and tubes in a factory that the government had built to manufacture synthetic rubber during wartime, and

the plant gives work to more than 500 people.

- Reichold Chemicals, Inc. has established a synthetic resin plant out on the banks of the Warrior River and now employs 250 men.

- All in all, there are now 111 manufacturing establishments employing 8200 people—one in six Tuscaloosans now works in industry. And it hasn't been long since only cotton was king. Now the area produces paper and tires, oil and roofing, lumber and boxes, furniture and sausages, mattresses and manhole covers.

The industrial payroll in one month in 1953 was \$19 million.

WHILE TUSCALOOSA COUNTY is still agricultural, growing cotton and corn, hogs and cattle, oats and cowpeas—sometimes two crops a year—the rural population has declined as the urban has increased. Most of the people coming to town to work in the factories are coming from nearby—a sure way to tell this is the fact that most of the people I overheard on the streets and in the stores spoke in soft, slurred Southern accents.

The Negroes—who make up 35 percent of the population—have found a happier lot, too.

It is difficult to find women domestics. "I guess they've gone to work in the mills," a Southern lady sighed as we sat on the wide

veranda of her home one afternoon.

"Or else, their husbands are bringing home two-dollars-an-hour, and the women don't have to work," her husband laughed. "Whatever the reason, we don't have any household help these days."

This new prosperity is found not only in Tuscaloosa, but all across the entire state.

It is perhaps more spectacular in Decatur in the TVA area of northern Alabama, where the Chemstrand Corporation has built a plant that manufactures all of the nation's Acrilan.

Mobile is making aluminum for Reynolds; little Reform — a tiny hamlet on the Mobile and Ohio Railroad—has a big Westinghouse factory. Industry is looking with fond eyes on the natural resources and the labor supply of this area. Tuscaloosa is in the coal, iron and limestone belt and at last factories are coming to the source of their supplies, instead of moving the mountains to Mohamet. There is no longer any need for industry to ship needed fuels thousands of miles from mine to factory.

As one big incentive to new industry, the City of Tuscaloosa will, through its New Industries Committee, build plants and factories for well-established companies that relocate there and rent

them to the industry on a pay-as-you-go plan. The committee will find low-cost building sites of up to 2000 acres and encourage the three railroads that come through the town to build spurlines to the site. Often the land is owned by the railroads which will make attractive, mutually beneficial bargains with the resettling industry.

THE PINEY HILLS still surround Tuscaloosa. Maybe the bootleggers have left them and their stills — the county voted "wet" last year for the first time since Prohibition — and are earning the \$2-to-\$2.50-an-hour wage that skilled workers can now receive. Maybe the pine is being cut down in some places — to be used in paper or furniture or turpentine — but where it is cut, it is being replaced in a scientific manner.

How do the Tuscaloosans feel about all the changes that have taken place?

The taxi driver who took me to the station — for my train back to New York — summed it up nicely. "You'll notice that we no longer speak of Tuscaloosa as a town," he said. "We now call it a city. I guess our city is kind of like the little girl next door. You can take her for granted for just so long — but then one day you look across the hedge, see how beautifully she's blossomed out, and it's love at first sight." ■

Market Basket

*What the new Consumer Price Index
reveals about your standard of living.*

Keeping this phrase in mind, let's see what sort of a margin Mr. and Mrs. America are living on in 1953. Are they spending most of their money for necessities or do they have enough left over — even in inflation — to splurge on luxury items?

Equally newsworthy, however, is a list of the new items that the Bureau has recently added to its Index in order to get a more accurate picture of American buying

habits. A random dozen of the items added to the new Index includes biscuit mix, frozen strawberries, fresh watermelon, restaurant meals, sports shirts, nylon slips, blue jeans, television sets, houses, home permanent refills, vitamin concentrates, automatic laundry service and group hospitalization.

A random half-dozen of the items taken *off* the list because they no longer form a significant part of the American scene includes salt pork, horsehide jackets, unionsuits, wood-burning cookstoves, quinine and bars of laundry soap.

The lists are amusing, but they are also highly significant. For, taken as a whole, they reveal a trend in our buying habits away from the old, unglamorous staples toward products undreamed of even a few years ago.

LET'S LOOK at food first. Even more important than the changes in the kinds of food we eat is the change in the proportion of our income we spend on food. Little more than a decade has passed since almost 40 percent of the average family's budget went for food; by January 1953 this figure had dropped to 30 percent. The reason, of course, is not that we were eating less but that we have more income to spend than ever before. Consequently, food can oc-

cupy a smaller percentage of the family income.

Not only are we spending proportionately less of our money for food, but, even with food prices near their peak, we are eating far better than grandpa ever did in the "good old days" before World War I when eggs were 33 cents a dozen and milk was 9¢ a quart. In 1919 the first Consumer Price Index listed only twenty-two items as making up the bulk of American foods. These were mostly staples like flour (unenriched), potatoes and rice. The average man in 1919 ate only two-fifths of an orange and drank little more than a quart of milk a week. By 1935, in the very depths of the Depression, the Consumer Price Index recorded that the average jobholder was eating two oranges a week and drinking more than two quarts of milk. What the figures are today can best be supplied from your own experience, but they are certainly higher than at any time previous in our history.

Awareness of vitamins and minerals has fortunately come about in an age when vitamin-rich foods are easily obtained. Fruit and vegetables are shipped to the cities in refrigerated cars, while canned and frozen foods are preserved at the peak of their ripeness.

IF A HOUSEWIFE were to decide to make lunch only out of the *new*

foods that have been added to the Index recently, she might prepare a meal by opening a can of fruit cocktail, frying some frozen codfish fillets, and plunging a pound of frozen stringbeans into boiling water. While they were cooking, she might whip up some biscuit mix and start thawing the frozen strawberries for dessert. She might even serve a cola beverage and use pickled gherkins for an appetizer without departing once from the new additions to the Consumer Price Index list.

While her dishes were drying in the automatic dishwasher—another item that the Bureau of Labor Statistics keeps an eye on—our imaginary housewife and her husband would very likely trundle the youngsters into one of the nation's 40 million passenger cars and head across the thousands of miles of two-or-three-lane roads into the country. Later in the afternoon they might stop for dinner at a roadside stand or restaurant. For restaurant meals, you will remember, now play a sufficiently important role in the American economy to warrant inclusion in the Consumer Price Index. After or before the grownups eat, mother opens canned baby food for the infant and unzips an insulated bag that keeps the bottle of milk warm.

Even within the past few years, the lure of the open road seems

to have grown for Americans. In 1950 the Consumer Price Index showed that we were spending 7.5 percent of our income for transportation. This winter the figure rose to 11 percent—partly because spending less for necessities like food had left us a greater margin for comforts like automobiles. Taken in concrete terms, this 11 percent represents an estimated 40 million passenger cars—or an average of one car per family. It also represents 32 billion gallons of gasoline burned up in one year—something that would have been labeled as science-fiction thirty years ago when 85 percent of our families didn't own cars and had no prospect of buying any.

According to the Consumer Price Index, once again, one of the reasons our imaginary family may have taken that trip into the country was to look for a house. For the first time this year, the Index included both home purchases and home repairs as part of the American economic pattern. And it was a logical decision, since two million homes have been built and bought in the last two years alone.

THIS CONCENTRATION on home-owning, especially in the suburbs, may be part of the "family revival" that sociologists are talking about. It certainly is part of a

pattern of relaxed living. The Index for this year includes blue jeans, nylon washables, sports shirts and slacks. And these efficiency clothes have been one of the reasons that apparel takes up a smaller proportion of the family budget. The man of the Thirties bought a new topcoat for \$24 every five years and a new suit for \$21 every two years. Even though his son in the Fifties spends twice as much for individual items and buys them more frequently, he still spends a smaller amount of his total cash for clothes simply because he has more cash to spend.

"Reading and recreation" now account for 5 percent of the American budget — with 21 million TV sets accounting for a good chunk of this money. This is almost double the amount we spent for amusement in 1950 and a far cry from the days when the "marginal value of the dollar" was so great that luxuries like a neighborhood movie meant sacrifices in food or clothing.

One thing that we are doing with the money we save on food, clothing and personal care is to put it into security. The popularity of group hospitalization plans

indicates this, and the sharp rise in medical care from 3.2 percent to 4.7 percent of our family income in the past three years is another sign that we are doing our best to prepare against illness. Already about half of our total population has some sort of pre-paid medical insurance, while 75 percent have life insurance.

All in all, the current Consumer Price Index brings in a far different picture from the initial survey in 1919, which used only food, coal, gas and dry goods as the measure of our buying habits. "Operation Market Basket" — as the Index is currently called — now includes three hundred goods and services — and even they give only a partial picture of our prosperity. If we only use our know-how and good sense, the same combination of scientific research that has increased the wheat-load per acre and the milk-yield per cow, that has brought us nylons and streptomycin, will also bring the consumer an ever-increasing supply of goods to put in his market basket. And the consumer in turn will find an ever-widening margin between what he must spend to survive and what he has left for comforts and security. ■

The Economics of Marriage

"CONCLUDING THAT I had more poverty than any one person was entitled to, I made up my mind to endow some deserving young woman with part of it."

— *Edgar Wilson Nye*

OUR STANDARD OF LIVING

BY 1960

It should rise considerably — provided



DR. COLM

The hope of most Americans is that the nation can soon shift toward a peacetime economy. But would less defense spending lead to a recession — or even depression? Dr. Gerhard Colm, author of *The American Economy in 1960*, and chief economist of the National Planning Association, believes the average wage-earner will pocket 20 percent more buying power by 1960—if we guide ourselves by the forces at work in the meantime. He explains these forces in an interview with CHALLENGE MAGAZINE.

Q DR. COLM, your recent book indicates that we're due to go on making economic progress in our country. How would you describe the rise in our standard of living by 1960?

A Well, let's take a typical wage-earner, a workingman with a wife and two children. Say he made \$4000 in 1951. In 1960 a similar worker should earn about \$4800. With less taxes, he'd have about \$825 to \$850 more to spend or save.

Q What if prices rise in the meantime?

A I'm estimating on the basis of 1951 prices and buying power. The increase of \$800 or more in annual income would mean that

the typical American family could buy more or better quality food, clothing, furniture or medical care. It could mean a car, more recreation or more savings.

Q Where would this increase in buying power come from?

A I base it on an increase in our production of goods and services. And I base the hope of such an increase on our experience. Our production in 1952 doubled that of the boom year 1929. We have no reason to expect this growth to come to a halt.

Our labor force is still rising and the productive capacity of our factories and machinery is rising still faster. Also, our farms have been turning out more food

with fewer workers. Recent technical advances should enable us to increase our output per man-hour at least as much as in the past, if not more.

Q *How would you measure this rise in our output of goods and services by 1960?*

A By adding them up under what we economists call gross national product. This gross national product, which is the value of our total production in goods and services, amounted to \$338 billion in 1952. It should reach \$425 billion in 1960, if full use is made of all our productive resources. This would be an increase of about 25 percent.

Q *You say it should reach \$425 billion; what reservations do you have in mind?*

A Well, of course, the big "if" is the international situation. I rest my estimates on the assumption that we and our allies will avoid a total war but will not feel able to disarm in the foreseeable future. Today our spending for national security is still mounting, but approaching a peak. Once our defense system has been set up, it will cost less to maintain.

Q *Is there a chance that there might be a depression when defense spending tapers off?*

A The threat of a depression is still with us, and this brings up

what I said about how the rise in output depends on full use of our productive resources. Obviously, this doesn't allow for a depression to happen, with all its waste of time, manpower and machinery.

Now, the first step in making full use of these things is to look ahead. We want to get an idea of how our economy will shape up in 1960 if it is to provide enough jobs and turn out enough goods for a higher standard of living. After we do that, we'll be prepared to ask what we have to do to attain such an economy.

The Economy Defined

Q *Can you give us a handy definition of an economy?*

A Yes — let's start with the number of families. We have about 41 million families plus 10 million persons not living with relatives. In other words we have more than 50 million consuming units.

Then we have 10 million or so producing and trading units. These take in all factories, farms, shops and so on.

In addition we count the thousands of governmental units—federal, state and local.

What we call *the economy* is the interplay of these millions of units among themselves, and among other such units throughout the world.

Q *How do you add up all this interplay among units, so as to know the results?*

A In order to gauge the results of all this economic activity, we lump the sum total of all goods and services produced — the gross national product — by its value in dollars.

The next step is to trace where this gross national product goes—who bought how much in the past, who's buying it now, and who may be expected to buy it in the future.

The pie-charts tell us this. We compare where the gross national product went in January-June 1950 (pre-Korea) with where it went in the last full year of a rising defense program, 1952, and where it may go in 1960.

We see the gross national product cut up in three shares in each pie—one for consumption, one for business investment and one for government. The term business investment, incidentally, represents the value of new construction and equipment. It also includes the investment of U. S. capital in foreign countries.

The key difference among the shares is in the size of the one going to government. This share was bigger in 1952, after Korea, because of the government's spending for arms. We also see that consumers bought proportionally less after Korea than before, taking 7 percent less of the

pie. Total production increased between these periods, of course, and most of the increase went for defense.

If the defense program declines in the next few years, the government's slice will again become smaller. It will shrink from 22 percent to 18 percent on the chart. Then, and this is important, consumption and business investment will have to make up the difference by taking a larger share.

They will also have to grow in amount so as to allow a healthy, continuous total growth.

Room for Investment

Q *That sounds logical, but why does the third chart show consumption on the rise while business loses a percentage point?*

A The rate of business investment has already run high for some time, especially in recent years. The government did everything in its power to push expansion in the steel industry, aluminum, electric power, aircraft and many other industries connected with the defense program. As a matter of fact, our manufacturing capacity has shot up about 20 percent in just the last two-and-a-half years.

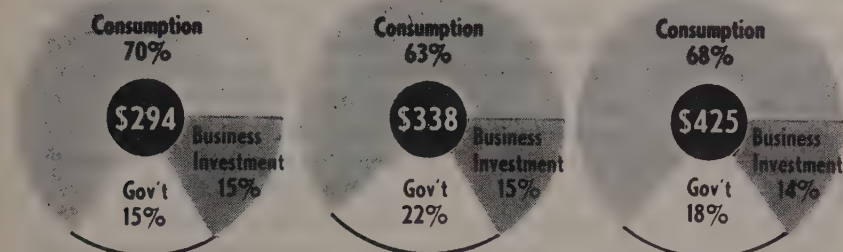
I see plenty of room for investment in new products and new methods, but I believe the *tempo* of business investment may slow

GROSS NATIONAL PRODUCT (IN BILLIONS)

Jan.—June 1950*

1952

1960 Projection



*Seasonally adjusted annual rate GNP table in constant 1951 prices.

down. It will be held back somewhat by the time it will take to open up new markets. Another thing — I don't believe the present rate of investment for home construction will continue for long. We no longer have a severe housing shortage in the country as a whole.

Overseas Prospects

Q *What about the prospects for investment overseas? Aren't these practically unlimited?*

A The possibilities for investment overseas are there, but they're limited more than most people realize. In the first place, many American investors hesitate to risk their capital abroad while conditions remain unstable or dangerous.

Apart from this, many foreign countries still lack the ability to make productive use of outside capital. They need technical aid first, to prepare the ground for

fruitful large-scale development. That takes time.

Q *It's clear why your chart shows that a decline in the share of goods and services needed for defense means an increase in the share that goes to consumers. But will consumers have enough money to buy a rising supply of consumer goods?*

A That's the crucial question. If families do not have the money to buy the goods that can be produced, some plants will shut down and some workers will lose their jobs. That might start a depression.

At the time the defense program was stepped up after Korea, consumer buying was held down a little. It was checked by taxation and by a rise in prices. When the defense program slackens, it will be time for consumer buying to be encouraged. We'll have to adjust again.

You see, our economy runs somewhat like an automobile motor. To run smoothly, a motor must have the proper balance between the burning of fuel and the feeding of fuel to the cylinders. If that balance is upset, the fuel pump must be adjusted. If it's not adjusted correctly, the motor may stop.

In our economy we have a capacity to produce at an expanding rate on the one hand, and a desire to consume at an expanding rate on the other. But if the *money flow* is not adjusted correctly, consumers will not be able to buy more than they do now. In this case producers will not expand.

If more money is not put into the hands of consumers in time, so as to encourage producers to expand their output in time, we may run into a depression. We never stand still; we either grow and progress, or we fall behind.

Too Early for Tax Reduction

Q *Wouldn't a tax reduction put more money in consumers' hands?*

A Certainly, but there should be no important tax reduction until we pass the peak of defense spending. It's very important that the possible benefit of tax reduction not be dissipated too early. It should be held for the time when

it can and should step up needed spending.

But even then, the possibilities for tax reduction will be limited by what's good for the federal budget. And it cannot do the whole job of adjustment.

Q *Just how should tax reduction be timed so that it will add to consumer purchasing power without leading to inflation?*

A If we could be sure that the international situation would permit the reduction in defense spending, it would be safe to cut taxes sometime during the balance of 1953. Reducing personal income taxes would directly add to consumer purchasing power. A lowering of corporate taxes would make it easier for corporations to make the desirable price adjustments.

If we were not able to reduce defense spending, we would not be able to lower taxes except at the risk of further inflation. A tax cut in this case would give consumers too much purchasing power for the amount of consumer goods that would be available.

Q *What about the amount of money in circulation? How may this be adjusted to a decline in government spending so as to encourage private spending?*

A If weaknesses in markets were to develop, the financing of investments in inventories, plant or residential construction could

be made easier. Borrowing for these purposes would help to prevent a decline in investments and would support private spending.

Q *What would happen if goods were on sale with consumers unable to buy?*

A Prices would drop. A decline in prices would increase buying power most effectively. Price decline is a medicine comparable to some of the wonder-drugs. It may be very wholesome but, if given at the wrong time and in a wrong dose, may do more harm than good.

If a price decline were so drastic as to reduce profit expectations, business might cancel plans for expansion or modernization of factories. This could lead to a downward spiral.

Q *How far could price decline go without destroying profits, or profit expectations, and without weakening incentives to invest?*

A That could be answered only by examining the various branches of industry and the various corporations in each branch. The answer also depends on what will happen to corporate taxes. As I mentioned before, a reduction in corporate taxes, at a time when we shifted from a sellers' to a buyers' market, might lead to a price decline. But such a decline would occur without cutting into after-tax profits or impairing the incentive to invest.

In any case, a moderate price decline in some products might be wholesome, while a heavy and general price reduction probably would do more harm than good.

Q *Would a moderate price decline halt business investment?*

A Not necessarily. We know very little about the way business decides whether and when to expand. There are some encouraging signs in this field. Many concerns now appraise future market possibilities scientifically. If they let themselves be guided more by long-range expectations concerning markets, prices and financial opportunities, they may be less affected by short-range ups and downs. This would have a stabilizing effect on the economy.

Q *What would be the effect of a price decline on wages?*

A If the price decline were to go so far as to force wages down, it probably would weaken the purchasing power of wage earners more than it would add to that of people who receive a fixed income. The total purchasing power would therefore fall off.

Increases Buying Power

Q *Everything considered then, would a price decline be harmful?*

A I didn't say that. A price decline which draws consumer goods within the reach of the masses of buyers is the best means to increase the power and willingness to buy. It is most ef-

fective if brought about by improved technology and management or by a lowering of unnecessarily high profit margins. It is not effective if undertaken at the cost of wages or at the cost of a fair chance to make profits.

Q *What about the effect of a rise in wages on purchasing power?*

A If wages would continue rising they would of course boost purchasing power too. But this remedy would also be harmful if not properly applied. It would be harmful if it forced prices up generally or if it wiped out the chances of profitable production.

A continuing wage rise would be most useful if offset by a reduction in production costs, or by the reduction of unnecessarily high profit margins. In projecting what would be a healthy economy in 1960, I look for an increase in real wage rates of 20 percent by that time.

Our Economic Future

Q *How would you sum up this look into the future, Dr. Colm?*

A We are looking ahead not so much to predict what is going to happen as to give some aid to those who will be making decisions in public and private life.

If a patient calls a doctor and asks him: "Doc, how many years do I have to live?" the doctor will answer: "It depends on the way

you adjust yourself to changes in your work and surroundings, how promptly you go to a doctor in case of sickness, how much you follow the doctor's advice, etc."

Our economic future is not predetermined by any unalterable laws of nature. It is to some extent determined by our own action.

Q *Your study on "The American Economy in 1960" has been published as a staff report by the National Planning Association. Does your Association propose that our economic affairs be so planned as to avoid a future depression?*

A If by "planning" you mean that the government should tell business or labor or the consumer what to produce, where to work, and what to buy, my answer is an emphatic "no." If "planning" means that all public bodies and private organizations and individuals should have the best possible information in guiding their own action the answer is "yes."

If private business and labor and consumers pursue their long-range interests with foresight, the task of stabilizing our economy will be greatly eased. In this sense, planning will indeed brighten our chances to avoid a depression and to lift our standard of living. ■

ECONOMICS IN ACTION (continued)

Such a panic, according to one government economist, is the real danger. For as long as production keeps high and no one goes on buying or selling sprees, there should be no fear for the American economy....

Although federal income taxes are bound to go down sometime within the next year, state and local taxes are on the rise...Faced with increasing populations, many localities have had to impose new taxes in order to build the necessary roads, schools and hospitals...Six large cities adopted income taxes last year...Other tax news: the Treasury has told Congress that it opposes any bill giving lower excise rates to economy brand cigarettes because it would reduce federal revenues. A 6¢ rather than an 8¢ tax had been proposed for cigarettes retailing for 13¢ or less....

Thanks to lower food costs, the cost-of-living index slid down another notch for the month of March... Retail prices are now only 13.4% above the 1947-1949 average...Many trade union members, strangely enough, are unhappy that things have grown cheaper, since their wages, which are tied to the cost-of-living index, have undergone a cut...Guaranteed annual wages for auto workers, instead of contracts tied to living-costs, is CIO President Walter Reuther's next major objective--and a strike may occur in the automobile industry if he doesn't achieve it....

"Taft-Hartley Sleeper" is what labor leaders have tagged a law that may get through Congress this session...By amending T-H to say that nothing in the Act restricts the right of states to enforce their

ECONOMICS IN ACTION

own labor laws, the backers of stricter labor legislation on the state level would get the green light... Union officials are worried it may pass....

Silk scarves and briar pipes grabbed the economic spotlight lately when both of them came up for a special presidential tariff review... Eisenhower's decision to postpone judgment until further study has meant a scuffle for power by both the pro-tariff and anti-tariff factions... For the next year at least, the President has recommended continuation of the Reciprocal Trade Agreements Act, but several new agricultural tariffs have been clamped down recently to bolster our falling farm prices....

"Color TV in '53" is the cry of happy television manufacturers... Compatible color television, recently unveiled by RCA, can be picked up either on conventional black-and-white receivers or on new color sets--a big factor in a country with 21 million TV sets... The government still hasn't approved anything but the old, incompatible CBS system; but it looks as if RCA should get the nod soon....

Department of Better Mousetraps: frozen bread that defrosts in three or four hours to a "just-baked" freshness...elastic nylon socks stretchable to any foot size...three-legged golf tees with adjustable heights...a window that knows enough to shut tight when it rains and open again when the sun comes out...absolutely "stainproof" ink that comes off your clothes but never fades from the paper...a ranch-type piano in knotty pine, with rawhide trimming and a steer's head carved on the music rack...and a fountain-toothbrush that holds dentifrice in its handle....